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THE FOOD STAMP EXPENDITURE CAP

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ABSTRACT

The food stamp expenditure cap, established in 1977 and subsequently revised, has repeatedly fallen short of program needs at current benefit rates. The desire for fiscal constraint given an unknown participation response to new program provisions, the usefulness of a cap in program management, and the unexpected economic circumstances since 1977 are the subjects of this report. The problems in using a cap created by a rapidly changing economy in 1977-80 are discussed. Finally, a Food Stamp Program participation model is used to show the suitability of similar models used in original planning of the cap, and the problems created for estimating funding needs during a period of rapidly changing economic parameters.

KEYWORDS: Food stamp cap, Food Stamp Program, entitlement program, Food and Agricultural Act of 1977, Mathis amendment

Preface

The Food and Agriculture Act of 1977 will expire in 1981. The new legislation will become the Nation's masterplan for agriculture until 1985. It could well influence the organization and operation of the food system for many years.

Along with the traditional concern over price and income policy, several new issues have emerged since 1977. Of particular significance are such matters as inflation, energy, credit, conservation of our resource base, the increasing international role of U.S. agriculture, and implementation of both domestic and international food assistance programs.

This report is a product of the ESS research agenda for the 1981 food and agriculture bill. It addresses the issue of the food stamp expenditure cap, as included in the Food Stamp Act of 1977. The cap is an expenditure ceiling, with original levels specified in the 1977 act. Cap levels have been revised several times during the life of the act, and this report looks at the reasons for revision and usefulness of the cap.

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Introduction

The Food Stamp expenditure cap, established by the Mathis amendment to the Food Stamp Act of 1977, has required nearly continual attention by both program administrators and the Congress since its enactment. Funding needs have exceeded the cap frequently, raising questions about its merit and function as a means of control on expenditures. Recently, members of Congress have given consideration to alternative policy measures for guiding program functions, such as a block-grant program, as well as lifting the cap altogether.

A later section of this report highlights some of the rationale used in attaching an expenditure cap to the Food Stamp Program (FSP), but it is important to recognize at this point that several other provision changes were adapted in 1977 as well. Among these, elimination of the purchase requirement (EPR) was thought at the time of legislative debate to have potentially large impacts on program clientele and needs of program participants.

History of the Cap

A review of the history of the program and events leading to passage of the Mathis amendment reveals that there had been a cap on the Food Stamp Program prior to the 1977 Act. This precedent for the current cap began with program inception in 1964 and continued through fiscal year 1972. Even more interesting is the fact that the cap was frequently exceeded during this period also (table 1). The cap was not breached from 1965 through 1968: for most of those years appropriations fell short of authorizations. 1/ But in 1969, authorization for the program was increased from $225 million to $315 million, with appropriations of $280 million. In 1970, the authorization was increased from $340 million to $610 million--all of it appropriated. Finally, in 1971, program authorization was increased from $340 million to $1.75 billion, with $1.67 billion appropriated. Subsequently, the program was administered pursuant to an open-ended authorization for fiscal years 1972 through 1977.

Two important questions arise from research on the background of the program:

(1) Is the Food Stamp Program an entitlement program?

(2) What has happened since 1977 to make the cap a pivotal issue in consideration of FSP expenditures?

1/ Authorizing legislation can set an upper limit on funds for a given program, or may specify an appropriation of "such sums as necessary" (open-ended authorization). In the case of the FSP, the Agricultural Committee is the authorizing Committee. The appropriations process usually determines how much funding a program is allotted. The Appropriations Committee is vested with this authority. If appropriations required are in excess of funds authorized, the authorization must be amended.

Table 1. Food Stamp Program With a Cap
Prior to the Mathis Amendment

	Authorization	Appropriation	Amended Authorization
	Millions of Dollars		
1965	75	60	**
1966	100	100	**
1967	200	140	**
1968	200	185	**
1969	225	280	315
1970	340	610	610
1971	340	1670	1750
1972-77	open-ended		

Entitlement Status

From 1964 through 1977, the Food Stamp Program was regarded as having entitlement status. This is extremely important in studying the issue of the effectiveness of a cap, since for 8 of these 13 years, the program operated with authorization ceilings. What, then determines the entitlement status of a program?

According to Congressman Robert Giaimo, Chairman of the Committee on the Budget of the House of Representatives:

> "As a matter of practice, four basic elements are crucial in identifying any entitlement matter. These include the beneficiary, the benefit, the manner in which the benefit is vested, and a procedure for relating the benefit to the beneficiary.... In an entitlement situation, the actual procedure... may or may not require formal action by the Appropriations Committee, but even if required, the Committee cannot alter the benefit or the beneficiary." 2/

By definition then, if a program has entitlement status funds must be committed to carry out the program. The Government implicitly makes a legal and enforceable commitment in the definition of eligible beneficiaries and benefit rates to provide these benefits to eligible persons. Prior to passage

2/ Food Stamp Act Amendments of 1980, House Report 96-788, U.S. House of Representatives, February 27, 1980.

of the 1977 Act, the language of the Food Stamp Act of 1964 specified that eligible households be provided with an opportunity to obtain a nutritionally sound diet through the issuance of a coupon allotment with a greater monetary value than the charge to be paid for such an allotment. It was the coupon allotment containing the "bonus" that constituted the necessary entitlement payment.

The inability of the Appropriations Committee to directly affect the benefit provides a rationale for the imposition of the cap--to establish control over expenditures. However, when program funding needs exceeded the cap in 1969 through 1972, additional appropriations were made. The appropriations process was required, but the process was merely perfunctory. Congress was willing to appropriate funds to meet the program level, which is a function of participation and specified benefit rates, and the administrative practice of the Department of Agriculture acknowledged this willingness to provide additional funding. Departmental estimates were not based on determinations of how much could be allocated to the program; instead, the estimates were based on projected participation and benefit rates.

A direct result of the Mathis amendment was to change the statutory provisions of the FSP in such a manner as to make the appropriations process critical. The explicit phrase "subject to the availability of funds appropriated" caused the program to forfeit much of its entitlement status.

Nevertheless, the question of "locking-in" program costs was addressed by Mathis during debate on the House floor:

> "You will hear arguments... that what we have done is to lock in expenditures... let me say that it would be very simple if the Department of Agriculture spends in excess of the amount that is covered in the legislation, to come back to the Committee on Agriculture and ask for a change in the authorization... that we could pass for such additional funds as might be necessary to finish out a fiscal year." 3/

The implications of this stance are far-reaching. Insofar as entitlement status of the FSP is concerned, the statements by Mathis describe the Food Stamp Program as a hybrid--characterized as a traditional authorization program (with a cap imposed) but at the same time stating that spending beyond the cap merely requires the Department to request additional funds. In other words, this interpretation implies that both the cap and the previous appropriations process are program controls which can be surmounted. Regarding Departmental administrative practices, very little was changed directly with the cap; however, prior to the cap Congress was required by law to fund the program at levels estimated by the Department. Since imposition of the cap, Congress has discretionary power to appropriate funds above levels set by the cap, regardless of program requirements.

Furthermore, it was implied by both the Committee on Agriculture and the Congress that amending the authorization could be easily done. This

3/ Ibid.

is important, because it left the Department with a clear reassurance that the program could continue without serious impediment by a spending cap.

Therefore, in responding to the question of whether the FSP is an entitlement program, the answer is--legally, no. However, the Department's administrative practice since imposition of the cap can be defended on the basis of the Mathis statement. That is, the Department believed that if more funds were needed, all that was needed was to request such funds and they would be readily granted.

Conflict Over the Cap

Because the cap was interpreted by the Department (and supporters of the FSP in Congress) as a flexible limit which could be amended to meet increased need, but by others in Congress as a true fiscal ceiling on expenditures, conflict was inevitable. Amending the authorization and obtaining appropriations became critical--the process was never accomplished as easily as implied by Mathis. The amount of additional funding requested was smaller, relative to the cap, than the additional funds obtained under the cap that existed prior to 1972. So, the relative change in authorization needed was not a factor in making the cap such a critical issue. In 1971, for example, the original cap was set at $340 million by the 1968 amendments: later it was amended to $1.75 billion, nearly a 415 percent increase, with appropriations of $1.67 billion.

Rather, several structural changes were made in program design; and these, coupled with unexpected increases in inflation (specifically food) and unemployment, quickly outdated the ceilings imposed by the Mathis amendment. To understand how the economy and program changes promoted rising program costs, the following sections describe the legislation and economic setting.

Estimating the Cap

The level at which the cap was set for each of the four years of the act, 1978-81, was based on a set of projections of macroeconomic conditions and the effects of newly legislated provisions. This same process had been used before in 1965 and 1971. However, due to the rapidly expanding nature of the program during its formative years, it was often necessary to increase funding above the ceiling in order to adequately serve the eligible population.4/

Program Changes

Major revisions were made in the Food Stamp Program with adoption of the Food Stamp Act of 1977. These changes included:

4/ "The Food Stamp Program Expennditure Cap" by Barbara A. Levey. National Food Review, NFR-10, Economics, Statistics, and Cooperative Service, Spring 1980.

- elimination of the purchase requirement (EPR)
- tightening eligibility rules
- redirecting benefits to the lowest-income recipients
- establishing new administrative requirements intended to simplify the program and eliminate fraud and abuse.

The changes, especially EPR, were recognized at the time of legislative consideration as having the potential for significant effects on program participation and costs. In order to make legislative proposals more palatable to those concerned with program costs, ceilings on authorization of appropriations were placed on the Food Stamp Program (FSP) for fiscal years 1978-81 as a control to prevent runaway program costs.

Following implementation of the 1977 Act, future program costs were not known with certainty, yet they were tied to rigid authorizations. Program managers had access to estimates of the number of eligibles under the expected economic situation, but knew little about the effect on actual participation; that is, the change in the proportion of eligibles that would participate under the new provisions. A second aspect of predicting program costs is estimation of the average amount of assistance for which participants are eligible.

Unfortunately, the one area about which budget analysts felt most certain--near-term economic conditions--was to change dramatically, as described in the following section.

Economic Impact on Participation and Costs

Economic conditions, especially unemployment and food prices, can have strong impacts on food stamp participation. As conditions have changed in recent years, the economic scenario foreseen in 1977 was drastically altered.

In mid-1977, the U.S. economy appeared to be well on the way to recovery from the 1975 recession. Economic forecasts at that time predicted a 6-7 percent rate of growth for real Gross National Product (GNP), a 6-8 percent rate of inflation, and a gradual but steady decline in the unemployment rate to a level near 5.5 percent by 1980. Instead, real GNP fell 5.3 percent annually, and inflation rose to a high of 7.7 percent in 1978 and 11.3 percent in 1979. The unemployment rate was 5.8 percent in 1979 and rose in early 1980.

The major economic feature of the period from 1977-80 was the unexpectedly high rate of inflation of all prices in general, and of food prices in particular. The Consumer Price Index (CPI) for food rose from 181 in 1976 to over 255 in 1980, nearly twice the anticipated increase. Tracing food price movements in 1977-79, it quickly becomes apparent that farm-level price increases of over 60 percent in beef and veal were passed through the market system to consumers, helping drive up the CPI for food at home by 22.4 percent in the 1977-79 period. The surge in food prices was strengthened by a drought in California in 1977, and by increasing prices for fuel and labor.

The value of the food stamp allotment to eligible participants is equal to the cost of the Thrifty Food Plan (TFP) reduced by 30 percent of the household's income. This measure of food costs also rose dramatically during the period since planning for the Food Stamp Act of 1977. In May 1980, the cost of the Thrifty Food Plan for a family of four (one child 6-8 years of age and one 9-11 years) was $51.20 per week. This is up from $37.90 in March 1976, an increase of 35 percent in just over four years.

Unemployment, a major determinant of Food Stamp Program participation, did not fall to the predicted level of 5.5 percent. Instead, it declined from 8.5 percent in 1975 to 6.0 in 1978 and then began to increase by the third quarter of 1979 as another recession appeared imminent. Final unemployment figures in 1980 are expected to be over 8.0 percent. Projections made in 1976 reflected current thinking that unemployment rates would be 5-6 percent in 1980.

Impact of Economic Conditions

The volatile behavior of the major economic indicators following passage of the 1977 Food Stamp Act created the need for additional funding for the FSP. To illustrate the crucial role that accurate forecasts of the major economic indicators play in projecting FSP participation and costs, a simplified projection model was used in this study to estimate program participation and costs on the basis of economic data and information available in 1977--the period in which cap levels were originally set.

Using monthly data for the 1964-1977 period, a multiple regression model was developed that relates participation to: unemployment, the Consumer Price Index for food, per capita disposable income, and a trend variable.

The regression equation used was of the following form:

$$FSP_t = -4.41 + 1.61\ UR_t + 0.065\ CPIF_t - 4.80\ DPI + 0.165\ t$$

$$(-9.33) \quad (22.65) \quad (4.37) \quad (-7.89) \quad (23.48)$$

FSP = food stamp participation in millions

UR = unemployment rate

CPIF = consumer price index for food

DPI = disposable income per capita in thousand dollars

t = Month: Jan 1964 = 1

$R^2 = .9855$

Durbin Watson = .1979

Standard Error of Regression = 0.806

Using macroeconomic assumptions representative of those made in 1977 regarding future levels of the major economic indicators, 5/ program

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5/ Estimates of the Congressional Budget Office (CBO) are used as a reference point in this analysis because they represent the economic expectations that prevailed in the congressional discussions in 1977.

participation and costs were estimated with this model. Input data for the model (the projected macro-variables) and the resulting 4-year cost estimates are shown in table 2. These are depicted as "estimated". The model was also used to estimate program size and cost based on actual historical data and forecasts made in June 1980. Program participation and costs based on the actual data show the levels at which the cap would have been set had the macro input been more accurate. The gap between estimates of program costs based on macro-economic forecasts made in 1977 and estimates based on current actual data and forecasts made in 1980 illustrates the paramount role of the projected values of the macro-economic indicators that are used. The FSP cost projections based on the economic forecasts from 1977 are all well under the expenditure cap established by the Congress (as expected, due to the margins built into the original cap levels), but substantially underestimate actual program experience in the years from 1979 to 1981. The comparison also demonstrates that even with this simplified model, the projected estimates of program participation and costs are very close to the actual program experience when the actual values of the marco-economic variables are used in the model. In other words, the cap level would have been appropriate (implying a valid projections model) if the macro-economic input had been closer to reality.

In 1978, although the actual cost of the program was greater than CBO's estimated program cost, costs did not exceed the cap. This was partly due to the fact that the unemployment rate was less than expected--6 percent, as opposed to 6.66 percent. Also, at the time the

	Real GNP % growth	CPI-food (1967=100)	Unemployment rate: %	Participation Without EPR	Participation With EPR	Annual cost without EPR	Cost with EPR	Average bonus	(1977) cap
	Percent		Percent	Millions		$1,000		Dollars	$1,000
1978									
CBO (Feb. 77)	5.2	195.6	6.66	17.3	**	5,483	**	26.41	5,848
Historical	4.4	211.8	6.0	16.7	**	5,729	**	28.59	
1979									
CBO (Feb. 77)	4.6	203.1	6.19	16.5	18.5	5,436	6,094	27.42	6,159
Historical	2.3	234.9	5.8	17.9	19.9	6,812	7,572	31.71	
1980									
CBO (Feb. 77)	5.0	210.9	5.67	15.8	17.8	5,401	6,081	28.47	6,189
ESCS (June 80)	-1.5	254.1	7.8	22.5	24.5	9,262	10,084	34.30	
1981									
CBO (Feb. 77)	5.0	219.7	5.12	15.0	17.0	5,346	6,057	29.66	6,236
ESCS (June 80)	.3	281.0	8.9	26.0	28.0	11,843	12,752	37.90	

cap was set it was presumed that EPR would be implemented sometime during 1978 rather than January 1979. With a more favorable unemployment rate, participation was approximately 600 thousand persons less than anticipated, and the increase in program costs over previous years was attributable to an increase in the CPI for food and a slower rate of growth in the GNP.

Using economic projections available at the time, CBO had estimated that EPR would bring approximately 2 million new participants into the program. However, actual statistics show that 4 million persons have entered the program since 1979, nearly 2 million more than expected. Estimates also called for GNP to grow at a rate of 4.6 percent--it grew at half that predicted rate--2.3 percent; and the CPI for food was expected to be 203.1--instead it was nearly 235. However, unemployment declined from the previous year's actual rate of 6 percent to 5.8 percent. This was less than the anticipated 6.19 percent. Thus, program costs increased by $1.5 billion. Had the actual unemployment rate been closer to the predicted rate, participation and costs would have been even greater.

In 1980, the gap between predicted and actual figures widened increasingly. Forecasts for the economy indicated GNP growing at a 5 percent rate, the CPI for food to be 210.9, and a decline in unemployment to 5.67 percent. Participation based on these figures was estimated to be close to 18 million persons; costs for the fiscal year were expected to be slightly less than $6.1 billion. However, forecasts for the economy were not in line with actual events. Real GNP decreased 1.5 percent, the CPI for food rose to 254.1, and unemployment rose to 7.8 percent. The end result of these unexpected changes in the economy are that participation is nearly 8 million more persons than expected, and program costs are $3 billion over anticipated levels.

In 1977, then-current estimates predicted that unemployment in 1981 would be 5.12 percent, the Consumer Price Index (CPI) for food would be 219.7, and GNP would grow at a rate of 5 percent. Participation was predicted at 17 million persons and program costs were predicted to decrease to slightly above $6 billion. Current predictions for 1981 call for an unemployment rate of nearly 9 percent, a CPI for food of 281, and real GNP growth of .3 percent. Costs of the program are expected to be almost $11 billion, servicing 22 million participants.

Two conclusions can be drawn from examination of table 2. First, the methods used by the Congress to project costs do not appear to have been at fault; rather, the assumptions used were inappropriate. This is shown by the fact that when the assumptions are changed the simplified ESS model does predict with greater accuracy the levels of participation and program costs. Second, it must be emphasized that since the assumptions were inaccurate, the degree of divergence between 1977 forecasts and forecasts using more current (and actual) values for economic variables must necessarily widen with time. This widening gap gives the cap a serious lack of credibility in terms of usefulness in program administration. An important conclusion from this is that a cap is only as reliable as the underlying macro-economic forecasts used in setting the levels.

A related consideration is that, if the cap is to be retained, the difficulty in accurately forecasting the behavior of the general economy more than 2 or 3 years into the future suggests that flexibility must be built into the legislation. In periods of high inflation such as we have recently experienced, a cost-of-living adjustment could be included in the expenditure cap. Alternatively, if controlling program costs is the goal, a fixed cap--strictly held--could definitely limit expenditures. A related option in view of the risk of incorrect longer term forecasts would be to set caps annually or biannually.

In retrospect, the macro-economic forecasts used in development of the FSP cost estimates were overly optimistic in at least three important areas. All of these contributed to the under-estimation of FSP costs:

- Inflation--the CPI for food, forecast to increase at an average annual rate of 6 percent, actually increased at an average annual rate of approximately 10 percent.
- Unemployment--the unemployment rate was projected to decline steadily to a level of 5.5 percent by 1980; instead, it dipped to 6.0 percent in 1978 and then began to rise in 1979-80.
- Real gross national product (GNP) and income did not grow at the predicted 7-8 percent rate, but at 3-4 percent annually during 1977-80.

Evaluating the Cap

Based on the foregoing discussion, it appears that a cap has more merit as an oversight mechanism than as an actual limit on expenditures, since every instance of exceeding the cap has been satisfied by additional appropriations. As presented to members of Congress, the Mathis amendment has served its oversight purpose well: Congress is continually aware of program costs and their rate of increase. They also have "a piece of the action" as Mathis stated, through their discretionary authority to amend authorizations. The Department has never had to implement section 18(b) of the 1977 Act, which requires the Secretary to reduce allotments in case of depleted funds.

In addition to serving an oversight function, the cap has had some success as an indirect control over program expenditures. While amendments for increased authorizations have passed, the Department continually faces a serious struggle in obtaining support for increased funding. Thus, program administrators are forced to be more frugal wherever possible, such as controlling administrative costs, tightening eligibility requirements, and preventing error, fraud and abuse. In this way, increased appropriations are justified on the basis of participation, food costs, and unemployment rather than administrative costs, or alleged program waste.

The difficulties encountered with the FSP spending cap have led to recent and more vocal discussions concerning alternatives to the cap. Although the food stamp cap may exert some pressure on the Department to be more frugal without cutting back on participation or benefits, program expenditures nevertheless have increased at a rate which appears alarming to an increasing number of legislators, administrators, and taxpayers. Hence, finding some method of cost-containment is likely to be a serious issue in consideration of the 1981 agenda.

If the cap is to continue, or have real meaning as a limit on program expenditures, Congress and the Department must address three areas of weakness in the FSP:

1. The question of entitlement status of the program must be resolved once and for all (or at least for the period under authorization); if the program objective is to provide benefits to all eligible persons, and if this is the agreed objective, then the program will require funding to meet that objective and the place for negotiation is not on program costs, but on defining eligibility and benefits;

2. Economic indicator estimates need to be the best obtainable. Neither budget estimates nor a cap have any value if the basis for those estimates is so tenuous and revisions in those indicators deviate by large, unexpected increments; and,

3. Both program administrators and members of Congress may need to adopt a more long-run attitude toward program changes. Program changes incur costs, even if their intent is to save money in the long-run. Changes in program eligibility standards, deductions, income adjustments, and economic factors (inflation and unemployment) directly affect participation and thus, expenditures. Unfortunately, the lag between these kinds of changes and cost increases is not as great as the lag between cost-saving changes and realizing those savings. EPR is a good example of this. The eligible population entered the program more quickly than expected, while phase-out of ineligibles occurred more slowly.

It may be that in order to see a stabilization in program expenditures, a period of time without any structural program changes is required. This would also provide a clearer picture of the effect of the economy on the FSP.

The food stamp cap was designed as a safety mechanism to be used if program expenditures escalated very quickly without a sound economic reason. During the past three years food stamp expenditures have increased quite dramatically, but not so much due to provision changes as to unexpected economic changes. This has created some confusion as to how firm the application of a spending cap ought to be in view of possibly extenuating circumstances. As 1981 legislation is developed, a more definitive answer to this problem may arise.